Spot On CIPS 2024

PwC Kenya

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Contents

Foreword

Michael Mugasa

Partner and Industry Leader, Consumer, Industrial Products, and Services

"In this publication, our industry experts provide a comprehensive overview of some strategies and practices that can be useful to businesses in navigating the complexities of today's economic landscape.

Welcome to our 2024 edition of Spot On CIPS Publication, where we delve into the emerging trends and critical issues shaping the Consumer, Industrial Products and Services (CIPS) sectors. Businesses in these sectors are experiencing constant unpredictable internal and external change, which requires innovative approaches to management and leadership, and day-to-day working.

In this publication, our industry experts provide a comprehensive overview of some strategies and practices that can be useful to businesses in navigating the complexities of today's economic landscape.

In a challenging macroeconomic environment, maximizing liquidity is crucial for business resilience. George Weru, Malvi Chavda and Margaret Wamaitha outline strategies for improving cash flow forecasting, managing expenses, and enhancing operational efficiency. They emphasize the importance of disciplined spending and financial stability to maintain liquidity. Techniques such as efficient inventory management, timely collection of receivables, and strategic management of payables are pivotal in enhancing liquidity position of businesses. Advanced analytics techniques like statistical analysis, machine learning, and predictive modeling also enhance cash flow forecasting accuracy. The article also discusses the benefits of cost reduction programs and the closure of underperforming divisions to redirect resources towards more promising ventures.

Based on our experience of working with family businesses, we know that they have unique advantages that enable them to withstand economic disruptions. Sunny Vikram and Shreya Shah discuss how these businesses' long-term perspectives, focus on trust, and strategic planning contribute to their resilience. By prioritizing sustainability and legacy over short-term gains, family businesses can make strategic decisions that ensure their longevity. The authors also highlight the importance of building trusted relationships with stakeholders and maintaining strong values. Successful family businesses plan for the future, create succession plans, and continuously adapt to changing market conditions, ensuring their continued success across generations.

With increased complexities in the tax laws and their enforcement, businesses must find ways to optimise their tax compliance strategies to thrive. Salome Kaiba and Edward Paranta explore proactive approach at tax compliance, utilisation of available tax benefits, and strategic financing of investments.They emphasise the importance of staying informed about tax obligations and legislative changes to avoid penalties and interest. By leveraging tax benefits such as investment deductions and ensuring tax compliance, businesses can run optimally from a tax perspective.The authors also discuss the tax implications of different financing options, highlighting the need for careful consideration of the tax impact of both debt and equity financing to achieve the most optimal tax outcomes.

Economic challenges increase data protection and privacy risks for businesses due to heightened cyber threats, regulatory changes, operational disruptions, and financial pressure. Herbert Njoroge stresses the need for businesses to build frameworks to safeguard personal data by examining threat landscapes, legal requirements, customer preferences, and competitive advantages. Comprehensive written agreements with customers and suppliers should include data protection clauses. Periodic vetting of suppliers' security practices through assessments ensures adherence to industry standards. Businesses should also conduct in-depth reviews of systems to enhance compliance levels. By investing in capacity building, establishing robust compliance frameworks, engaging with regulators, and adopting technological safeguards, businesses can manage data protection risks effectively.

Digital transformation is essential for businesses to adapt to changing consumer needs and market conditions.Laolu Akindele,Conrad Siteyi and Michael Ndathe discuss how emerging technologies such as artificial intelligence, cloud computing, internet of things applications (e.g., smart farming solutions),

smart factories, smart cities, smart grids, 3D printing, virtual reality, data analytics, machine learning, and blockchain are transforming various sectors in Africa. These technologies reduce production costs, improve efficiency, promote innovation, and support diversification. It highlights the importance of a clear digital transformation strategy that aligns with business goals. By investing in tech talent, fostering a culture of innovation, and leveraging digital tools, businesses can stay competitive and thrive in today's dynamic environment.

Over-reliance on technology in cybersecurity can lead to significant risks. Jamila Aroi and Stephen Mbwambo explore past cyber incidents like the Equifax and Target data breaches to illustrate the pitfalls of technological dependence. The authors emphasize the importance of human vigilance, proper training, and a balanced approach that combines technology with skilled professionals. By diversifying technology solutions, hiring skilled cybersecurity professionals, and providing continuous training, businesses can enhance their cybersecurity strategies and avoid falling into the trap of technological dependence.

Environmental, Social, and Governance (ESG) reporting is evolving from a compliance requirement to a strategic tool for growth. Jane Kanyingi discusses the benefits of effective ESG practices, including impact measurement, risk management, innovation, access to capital, cost reduction, operational efficiency, market differentiation, talent attraction, and enhanced transparency. By integrating ESG principles into their core strategies, companies can unlock opportunities for innovation, build resilience, and drive sustainable growth.

Each of the articles offer a unique perspective on how to thrive amidst challenges, ensuring long-term success and sustainability. We trust that you will find the publication informative and useful as you navigate the challenges in your business.

Please contact me or any of the contacts featured in the articles if you would like to discuss any of the matters covered in the publication.

Maximising liquidity holds the key to resilience in tough economic times

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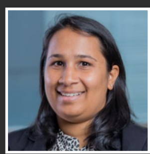

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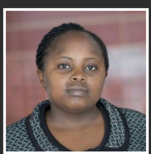

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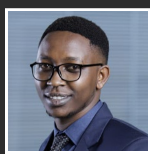

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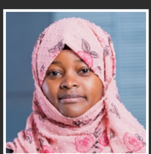

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Kenya's businesses, like their counterparts in the wider East Africa market, are currently operating in a precarious macroeconomic environment characterised by high levels of inflation, sluggish productivity growth and high commodity prices. Geopolitical tensions around the world have also disrupted value chains of commodities, oil in particular, thereby adversely influencing Kenya's energy costs.

This has led to an increase in the production costs stemming from the high costs of importing raw materials thus reducing the manufactured goods ready for export.These higher costs are affecting balance sheets, increasing the amount of working capital tied up in operations. Additionally, ongoing delays in receiving orders have resulted in stock shortages and lost sales. To mitigate this, companies are planning strategic buffer stocks to cover the gaps, which further ties up working capital and impacts liquidity.

> ...businesses can maximise liquidity through the closure of underperforming or loss making divisions...

Lastly, higher interest rates are increasing the cost of working capital as businesses often rely on borrowing to finance their day to day operations. These factors are leading to reduced revenues, high operational costs, declining profitability and cash reserves.

High liquidity serves as a financial buffer offering stability during economic crises or unprecedented challenges thus reducing the risk of insolvency for most businesses. High liquidity means businesses have sufficient cash or assets readily available to meet short term obligations. Businesses with sufficient liquidity can adapt to changing market conditions more effectively and implement radical strategies without being constrained by financial limitations. Maintaining liquidity also goes a long way in boosting stakeholder confidence in the entity, attracting top talent, customers and partnerships that could open doors to further collaborations and opportunities. For this reason, there is a heightened need for better cash utilisation practices as well as fostering a cash culture in organisations to ensure disciplined spending and financial stability. This article outlines some of the tried and tested practices for optimising the liquidity position of any business based on the experience of our business restructuring experts.

As part of the practices to adopt, businesses should improve on their cash flow forecasting abilities which will lay the foundation for effective financial planning and anticipating liquidity shortfalls. Regularly updating and analysing cash flows equips the management with the necessary insights required for strategic decision making such as undertaking certain expansion plans, investments or cost cutting measures. The management is also able to eliminate non essential cash outflows and identify opportunities to release cash from working capital. Leveraging on technology and advanced analytics techniques such as statistical analysis, machine learning and predictive modelling allows for the extraction and identification of patterns, trends and correlations which can inform more accurate forecasting.

Certain general techniques have been pivotal in enhancing liquidity for most businesses including efficient inventory management, timely collection of receivables and strategic management of account payables. Knowing when to negotiate favourable payment terms with suppliers or clear credit policies for customers can be instrumental in determining whether a business thrives or faces challenges that will ultimately lead to its demise.

Businesses with well set out and managed payment terms and adequate credit policies contribute to a more reliable and predictable cash flow thereby contributing to the ability of such organisations in withstanding economic uncertainties.

Maximising liquidity and cost reduction programmes are also often intertwined strategies for financial management in businesses. Cost reduction programmes are aimed at optimising expenses while at the same time improving operational efficiency. By reducing costs, a business is able to redirect funds toward strategic investments, contributing to business growth and competitiveness whilst maintaining adequate liquidity for day to day operations.

Undertaking a comprehensive analysis of the entity's expenses regularly is crucial in identifying areas for possible cost reduction. The results of such an analysis allow for a comparative exercise against industry benchmarks prompting targeted cost cutting measures which eliminate bottlenecks contributing to unnecessary costs.

Alternatively, businesses can maximise liquidity through the closure of underperforming or loss making divisions in a timely manner. Non performing divisions often consume valuable resources that would have yielded higher returns if utilised in more promising ventures which could increase shareholder value. Addressing underperforming divisions at the earliest opportunity through strategic measures, which may include restructuring or divestment gives room to a business to avoid financial strain and maintain its competitive edge in the market. It allows the business to redeploy capital to more productive areas of the business hence contributing to the overall financial well being of the organisation.

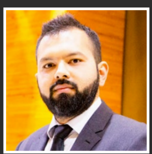
Adopting more proactive strategies in such times is crucial for survival and sustained operations. Businesses will need to consider more effective and innovative ways to meet immediate obligations, seize opportunities and weather hurdles without compromising their core operations.

In essence, maximising liquidity requires an elaborate approach that addresses both short term needs and long term growth objectives of the business. Adapting liquidity strategies to the ever changing business landscape necessitates constant monitoring and adjustment.

As such, businesses need proper guidance and appropriate tools to navigate the complexities of the trade surroundings, make informed decisions and stay competitive in such conditions.

> "...maximising liquidity requires an elaborate approach that addresses both short term needs and long term growth objectives of the business...

Succeeding against the odds



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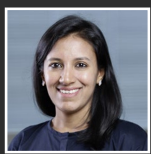

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When faced with challenging economic conditions, family businesses are unique with many advantages which puts them in good stead during times of disruption and crisis. They are inherently resilient with a long term view, have a focus on building trusted relationships with family members, employees, suppliers and customers and have a clear purpose and strategy that is aligned with the family ambition, vision and values. These clear advantages enable them to go from strength to strength across generations and be better prepared for challenging economic times, than other businesses.

Resilience and long term view

Family businesses' long term outlook distinguishes them from other enterprises. By focusing on resilience, as opposed to short term gains and taking on debt, these companies are better able to weather economic storms. Family businesses may not seek a return on a quarterly basis and this patient approach is informed by their view to protect their business, but more importantly the family's reputation for generations to come. Success or failure attaches not just to the business, but also to the family. The long view perspective means that family businesses may be less successful during booms but increases their chance of staying alive in periods of crisis and achieving healthy returns over time.

Family businesses tend to have relatively conservative portfolio strategies based on competencies built over time, coupled with moderate diversification around the core business and in many cases, a natural preference for organic growth. When it comes to expansion via mergers and acquisitions, they may make smaller deals that are more value creating than their corporate counterparts.

Successful family businesses that started small having a focus on manufacturing one product, for example, have diversified over time and have become multibusiness companies expanding into new markets and regions. The long term perspective allows them to make strategic decisions that prioritise sustainability and legacy over short term gains. Founders imbue the company with their values and vision which are passed down to generations and this enduring commitment to a purpose beyond profit sets family businesses apart, fostering a culture of perseverance, resilience and innovation.

Building trust and having strong values

Another key strength is that family businesses sustain the path of success by focussing on building trusted relationships which can be built and strengthened systematically. With the disruption that many family businesses have experienced over the last few years or so, many of them have realised that what worked before may not work now. Whereas previously, trust may have been implied or taken as a given, many family businesses are now finding that trust can be sustained and supported through clear lines of communication and by documenting values, succession plans and conflict resolution policies.

Family business owners tend to place a high premium on trust, at a family level and with employees, suppliers and customers. Bridging the gap between the desired level of trust and actual trust with each stakeholder, is of utmost importance.

“Family business owners tend to place a high premium on trust, at a family level and with employees, suppliers and customers.

Family business who introspect are likely to ask questions such as:

- If our talented employees do not trust us, do we risk losing them? What would this mean for our ability to innovate and remain competitive?
- Are we trusted by our customers?
- Is there sufficient cohesion in the family and does the family have a shared vision for the family business?
- Do we have robust family governance structures to protect the interests of the family and the business, whilst maintaining harmony in the family?

Whilst there are many more questions that family businesses can introspect on, family businesses focus on whether they are trusted and trustworthy, since this influences behaviour, guide decision making, inform business practices and contribute to their reputation. Since family businesses are often deeply rooted in their communities and cultures, there is a unique bond among their stakeholders, which enhances their business resilience in the face of challenges.

Imperative of strategy and purpose

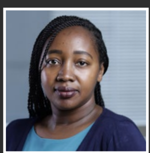
Successful family businesses don't let the chips fall where they may. A key question that family businesses ask themselves is, "Do I want to leave a legacy for my family?" With this in mind, successful family businesses tend to plan for the future, create succession plans, identify talent in their employees both within and outside the family, analyse the market and assess if the business is agile and responsive enough to evolve through the dynamic environment shaped by megatrends such as technology, legislation and geopolitics.

In our view, this is the initiation of an owner strategy, which should be robust and critically look at the future growth drivers of the business, whilst balancing economic considerations, family dynamics that ensure that not only does the family prosper financially but also retains its harmony.

Ultimately, each family business is unique. Whilst it is not possible to have a one size fits all for owner strategies, one thing that is certain is "business success cannot make up for family failure". New mindsets, strategies and practices help family businesses to survive and thrive in today's turbulent era.

Since family businesses tend to respond with a multigenerational perspective, legacy becomes a blessing and not a burden which shapes the longevity of family businesses. As such, robust strategies which weave the narrative of continuity, values and purpose, provide a roadmap for navigating challenges and building a lasting presence in today's dynamic business landscape.

Optimising taxes in turbulent times



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Introduction

In the wake of the Government's increased domestic resource mobilisation efforts, it is expected that the focus on taxes as a measure of raising Government's revenue will persist in Kenya. Amidst the Government's concerted efforts for additional revenues, the economic environment in Kenya has been challenging and businesses are facing turbulent economic times.

This article sheds light on some of the ways businesses can optimize their tax position to thrive in the challenging economic environment.

Proactive tax compliance

Tax compliance entails knowledge of a business's tax obligations as provided in the tax law and actively meeting the obligations. It is critical that businesses are well informed of the tax obligations applicable to them as a first step in ensuring compliance. The cost of non-compliance adds to the loss of revenue in the form of penalties and interest of the unremitted amount which otherwise would be at the business disposal. This coupled with the cost of defending non-compliance when faced with tax assessments from the tax authority deprives the business of the much-needed resources.

Keeping abreast of the tax legislative changes and understanding their impact is therefore crucial in ensuring proactive tax compliance. It is also encouraged that businesses self- assess through tax health checks. This is quite helpful in identifying gaps in the business from a tax compliance perspective as well as any red flags that would need to be addressed prior to tax audits and assessments by the tax authority.

In simple terms, proactive compliance can be likened to maintaining a healthy lifestyle (i.e. exercising, eating right etc.). By maintaining a healthy lifestyle, one lessens the chances of contracting lifestyle diseases.

Similarly, by ensuring proactive tax compliance, businesses avoid loss of revenue in the form of penalties and interest for the unremitted taxes and the cost of defending the non-compliance.

Utilisation of available tax benefits, allowances and exemptions

There are various benefits, exemptions and allowances (such as investment deduction) provided by the Kenya's tax laws. Knowledge of these benefits and their adoption where applicable is key to saving cash which otherwise taxpayers would have had to remit to the Government as taxes. Some of these benefits include:

- Interest income from infrastructure bonds and projects defined under Green Bonds Standard and guidelines, with a maturity period of at least three years is exempt from income tax.
- Special Economic Zones enterprises, developers and operators have various tax benefits such as reduced corporate tax rate, reduced withholding tax rate on qualifying payments among others.
- Taxpayers investing outside Nairobi and Mombasa Counties in respect of hotel building, building and machinery used for manufacture are eligible for accelerated investment deduction subject to meeting various conditions.

> “
> ...by ensuring proactive tax compliance, businesses avoid loss of revenue in the form of penalties and interest...

Additionally, Kenya has concluded Double Taxation Agreements ("DTAs") with various countries such as the United Kingdom, South Africa, France, India among others. Whereas the DTAs mainly serve to allocate taxing rights between two countries and to prevent double taxation, some of the DTAs also provide for tax exemption, exclusion or reduction in the tax rates in respect of certain specified transactions such as management or professional services, royalties, dividends, interest among others subject to meeting specific conditions. As such, a taxpayer making a payment to an entity located in a country that has concluded a DTA with Kenya should take into account the provisions of the DTA.

Financing Investment(s)

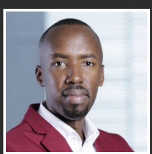
The mode of funding investment is also crucial in optimizing the tax position. Whilst driven mainly by a business's commercial and legal considerations, from a tax perspective there are considerations that ought to be factored from an expense deductibility and cash repatriation point of view.

Financing sources include debt, equity, mixed financing among others. The taxes associated with debt financing include interest deductibility for corporate tax and withholding tax on interest while the taxes associated with equity financing include withholding tax on dividends, stamp duty on increase in share capital among others. Given the tax costs, modelling the impact of each financing option is a key step. It is therefore crucial that the mode of funding investment be reviewed from a tax standpoint, bearing in mind which mode offers the most optimal tax outcome for the business.

Conclusion

Amidst the tough economic times for businesses, any savings that could be made from optimising the tax position is key. The foregoing measures would go a long way towards optimising the business's tax position. Whilst these measures are cross-cutting, business circumstances are unique and distinct. Commercial, legal and other non-tax considerations are also key when making investment and financing decisions. key when making investment and financing decisions.

Managing data protection and privacy risks in tough economic times



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The United Nations Department of Economic and Social Affairs has published the World Economic Situation and Prospects Report 2024. From an Africa perspective, economic growth is projected to remain weak, increasing from an average of 3.3 per cent in 2023 to 3.5 per cent in 2024. This is attributed to the global economic slowdown, tighter monetary and fiscal conditions, and high debt sustainability risks which are expected to dampen growth in Africa. Though a bleak forecast of the future, it is still possible for businesses to find sustainable ways to weather the turbulent economic times that have plagued the entire globe for the last couple of years since the global pandemic in 2020.

One of the major risks that businesses need to consider is compliance with data protection and privacy laws and regulations. Data protection and privacy risks increase in challenging economic times, as businesses face hurdles such as increased cyber attacks, regulatory changes, changing customer expectations, operational disruptions, and financial pressures.

To effectively manage these risks, businesses in the consumer, industrial products, and services sectors need to adopt a proactive, holistic, and resilient approach that aligns with their strategic objectives and stakeholder needs. What does this look like?

Continuous Capacity Building:

Lack of knowledge and insight is at the heart of threats related to data protection and privacy. It is vital for employees, management teams, and boards to invest in learning and development resources to keep themselves appraised with legal and regulatory requirements relating to data protection and privacy, as well as relevant international best practice and developments.

The proverbial "Knowledge is Power" proves true in such times. This is especially because technological advancements have made such resources readily available. Businesses can take advantage of this to upskill their human capital and build robust knowledge management frameworks.

Data Protection and Privacy Compliance Framework:

The enactment of the Data Protection Act, 2019 and the related regulations , has motivated employees, customers, and other stakeholders to expect some level of care and attention in the handling of their personal data.

Therefore, businesses can start by building frameworks to safeguard the personal data of their various stakeholders as they examine the changing threat landscape, legal and compliance requirements, customer preferences, and competitive advantages relevant to their market and business model.

Businesses should ensure that they have the appropriate policies in place and that there are comprehensive written agreements in place to document the contractual relationship with customers and suppliers, and these should include clauses on data protection and privacy safeguards to be put in place by the contracting parties.

We recommend that businesses periodically vet the security practices of their suppliers by conducting thorough assessments of their data security measures, certifications, and adherence to industry standards and using metrics, indicators, audits, and feedback mechanisms that enable such third parties to identify and address any gaps. Where possible, businesses should also

> "Data protection and privacy risks increase in challenging economic times....

consider conducting in-depth reviews of their systems and processes to enhance their compliance levels and enhance the level of trust from their employees, customers and other stakeholders.

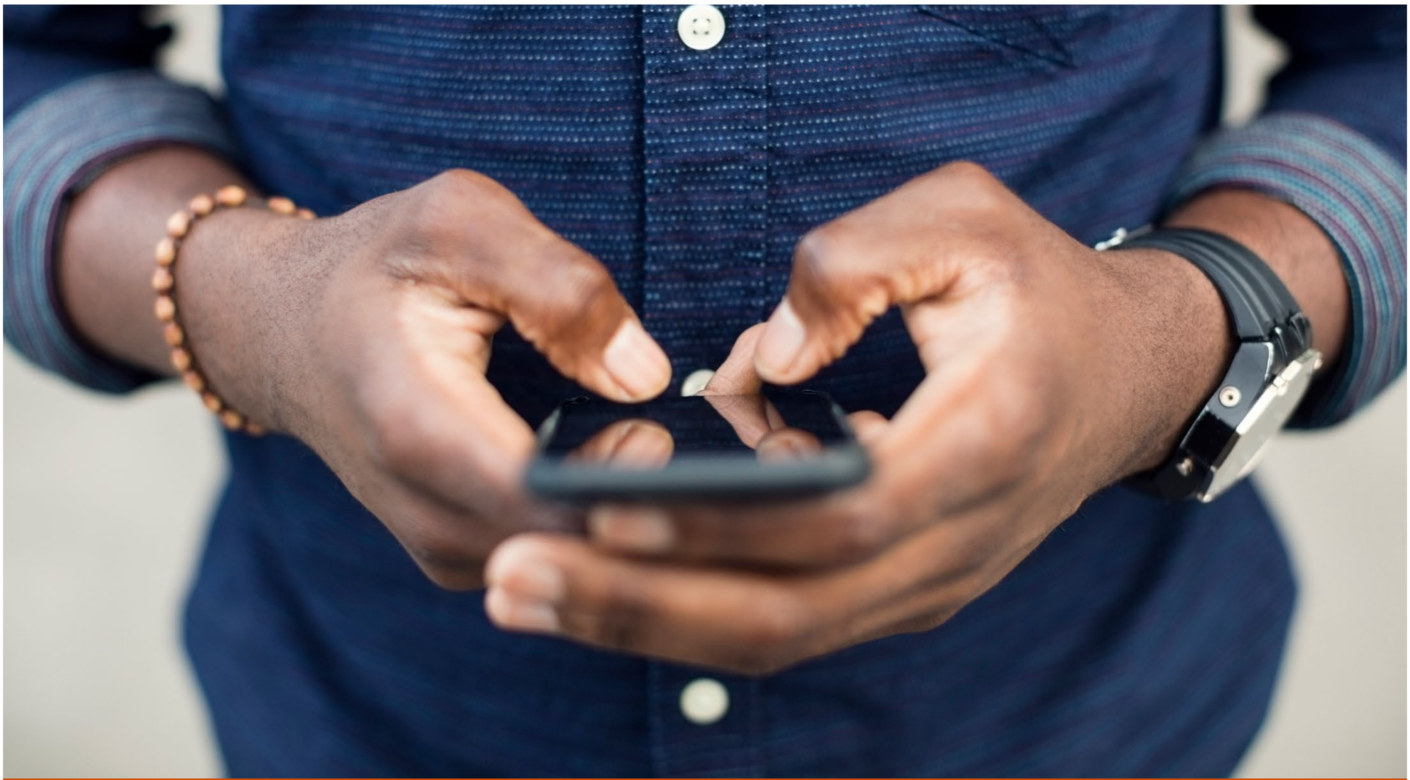
Businesses should also adopt measures such as such as data minimization, encryption, pseudonymization, access control, data protection impact assessments, and ensure that their systems adhere to data protection by design and by default requirements.

Regulator Engagement:

The Office of the Data Protection Commissioner (ODPC) continues to engage stakeholders in various sectors of the economy with the aim of creating public awareness on data protection and privacy issues as well as encouraging businesses to comply with the requirements of the law. Amidst the current economic uncertainty, businesses can take the chance to engage the regulator on practical issues they face in attempting to comply with the law and lobby for amendments to these laws and regulations, as well as seek advisories from the regulator to aid them in putting in place practical procedures and documentation. Despite the numerous enforcement and penalty notices issued by the ODPC in the recent past, the ODPC is open to engagement with various stakeholders as this is an avenue to enhance the understanding of the data protection and privacy legal and regulatory framework and make a mark in the business landscape in Kenya.

Businesses must keep data protection and privacy compliance as a key priority especially due to the continuous, disruptive, and expansive developments in technology. These include cloud computing, artificial intelligence, blockchain, and the Internet of Things. Businesses should evaluate the data protection and privacy features and functionalities that these technologies offer, such as data portability, consent management, data anonymization, smart contracts, among others, while ensuring that they comply with the ethical, legal, and social implications of their use.

Businesses in the Consumer,Industrial Products, and Services sector will continue to grapple with data protection and privacy risks for the foreseeable future and as such, they should look to adopt safeguards that address multiple compliance issues at the same time while still managing costs.



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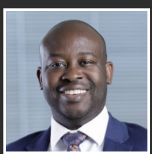
Digital transformation strategies for thriving in turbulent economic times



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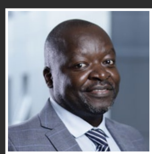

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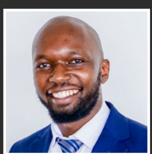

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Business leaders today need to answer some key questions to ensure their continued survival in the market. What do consumers need today, what might they need tomorrow, in the coming year and beyond? Accurate answers to these questions may be the difference between another successful year in business or complete extinction for these companies. The business landscape is rapidly evolving and consumer-facing businesses are having to keep up with the evolution to maintain a competitive advantage. The new age of digital technology provides an opportunity for these businesses to engage their customers using new and innovative ways. They can now leverage on technologies such as behavioral analytics, artificial intelligence, cloud computing, big data, blockchain, IoT and robotics to better understand their customers. They can use AI algorithms embedded in social media to gather data on where, when and how their customers consume their products.

Consumers today are looking for experiences rather than just products. This has resulted in less loyalty to specific brands as has been the norm in the past. To stay ahead of the curve, more and more businesses are rapidly embarking on digital transformation journeys to enhance their customer experience through both online and offline channels.

These journeys are primarily centered around changing the way the business interacts with its customers and how it provides its customers with a consistent experience whenever and wherever they need it. Catering to consumers has always required innovation and agility, and companies that quickly adapted to recent turbulence were more likely to grow more profitably.

Industry results from PwC's 2024 Digital Trends in Operations Survey show that many consumer-facing companies are making progress, although challenges remain. 80% of consumer markets operations and supply chain officers say they have already implemented changes to their operating model or plan to do so in the next 12 months while 37% say their companies expect to invest more in tech talent in the next 12 months.

Players in the Consumer,Industrial products and Services sector are rapidly embracing emerging technologies ranging from artificial intelligence to cloud computing, from smart grids and Internet of Things to blockchain. These technologies have the potential to greatly reduce production costs, make exchanges such as trading goods and services more efficient, and allow ideas and knowledge to spread, thus promoting further innovation and growth. Africa has rich and untapped potential and markets that present unique opportunities for businesses to transform their operations by leveraging digital technologies.

The agricultural and manufacturing sectors, which are key engines of growth and job creation in Africa, are currently experiencing the advantages of digital transformation through the implementation of IoT applications. These include smart farming solutions, smart factories, smart cities, and smart grids. These developments have allowed more effective advice and insights to be delivered to farmers through precision agriculture utilizing big data, GPS, drones, and high speed communication, with considerable impact. Data analytics and machine learning are being used to process aerial imagery from

drones and satellites, providing real time insights on crop performance, pests, plant health, irrigation levels and is forecasted to improve crop yields by 20% over 5 years. Technology is also connecting farmers to markets much more effectively through new models of aggregation, logistics and supply-chain management. In manufacturing, adoption of new technologies – usually referred to as industry 4.0 technologies such as IoT, 3D printing, virtual reality, data and analytics, AI and machine learning – can help businesses expand their manufacturing capabilities and support diversification.

According to Global system for Mobile Communications Association (GSMA), implementing industry 4.0 technologies has been shown to achieve 30 to 50% reductions in machine downtime, 10 to 30% increases in throughput, 15 to 30% improvements in labor productivity, and 85% more accurate forecasting.The application of the Internet of Things in the manufacturing context alone could increase manufacturing productivity by 10 to 25% and value add by 20%. In the mining industry, industry 4.0 technologies can support more efficient, safer and more productive smart mines, with IoT sensors, remote site monitoring and remote-controlled drilling rigs delivering improved efficiency, productivity and safety and a combined ROI of 207% over ten years in surface operations. In underground mining, the ROI equates to 256%. Finally, among the major industrial sectors, the construction industry has huge potential to digitalise, with productivity gains estimated of up to 15% and cost reductions up to 6%. In addition, factory automation with cellular IoT technology optimises manufacturing processes with increased efficiency, fewer human errors, increased reliability and safety and reduced downtime. Expanded manufacturing capabilities can lead to greater integration to global value chains and further increase in outputs, reduced concentration in products and markets and links to specialized markets.

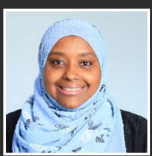
A digital transformation journey typically begins by determining what goals you want to achieve through digitisation. There has to be a clear picture of what the target state will look like for the business. The transformation itself can be implemented in a number of ways. You could opt for a total reinvention of the operations within all departments or lines of service. You could also begin with one or more departments or sections of the business to get a picture of how and what transforming the rest of the business would look like. However, for your digital initiatives to be successful beyond infrastructure changes, there must be a shift in how team members within the business think about technology.

Business leaders should prioritize educating their employees to help demystify assumptions that emerging technologies such as automation and AI are here to replace them. They should be able to articulate the benefits of digitalisation, demonstrate a clear vision for the business's future and allocate resources accordingly to enable this change. All these goes a long way to reduce any resistance to change from employees. Training and supporting employees on how to use these digital tools and technologies will help to promote a culture of upskilling and continuous learning. This can be furthered by investing in workshops, seminars and training programs that equip the employees with digital skills.

In addition, business leaders should strive to create an environment that encourages innovation, where employees feel empowered to propose new ideas and think creatively. Leveraging different perspectives will help foster innovation.

"A digital transformation journey typically begins by determining what goals you want to achieve through digitisation...

The dangers of technological dependence : An informed look



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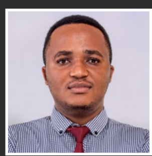

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In this digital age, technology exists as a double-edged sword in cybersecurity. Without doubt, strong and sophisticated tools and systems are needed to protect sensitive information. However, overreliance on technology opens up multiple risks.

This article explores the pitfalls of an over-reliance on technology in cybersecurity strategies by taking a look at previous cyber incidents, the strategy gaps that were exploited and provides insights into how organisations can avoid falling into the same pitfalls.

The Illusion of Security and Vulnerabilities in Technology

Among the very first risks that come with dependence on technology is a false sense of security. Too often, companies invest millions in state-of-the-art tools for cybersecurity, assuming that these technologies will help in safeguarding their data. However, this puts many firms in a state of complacency, overlooking human vigilance and other proactive measures.

One such example can be drawn from the Equifax data breach incident that hit in 2017. Equifax, one of the largest credit reporting agencies, suffered from a massive data breach whereby personal

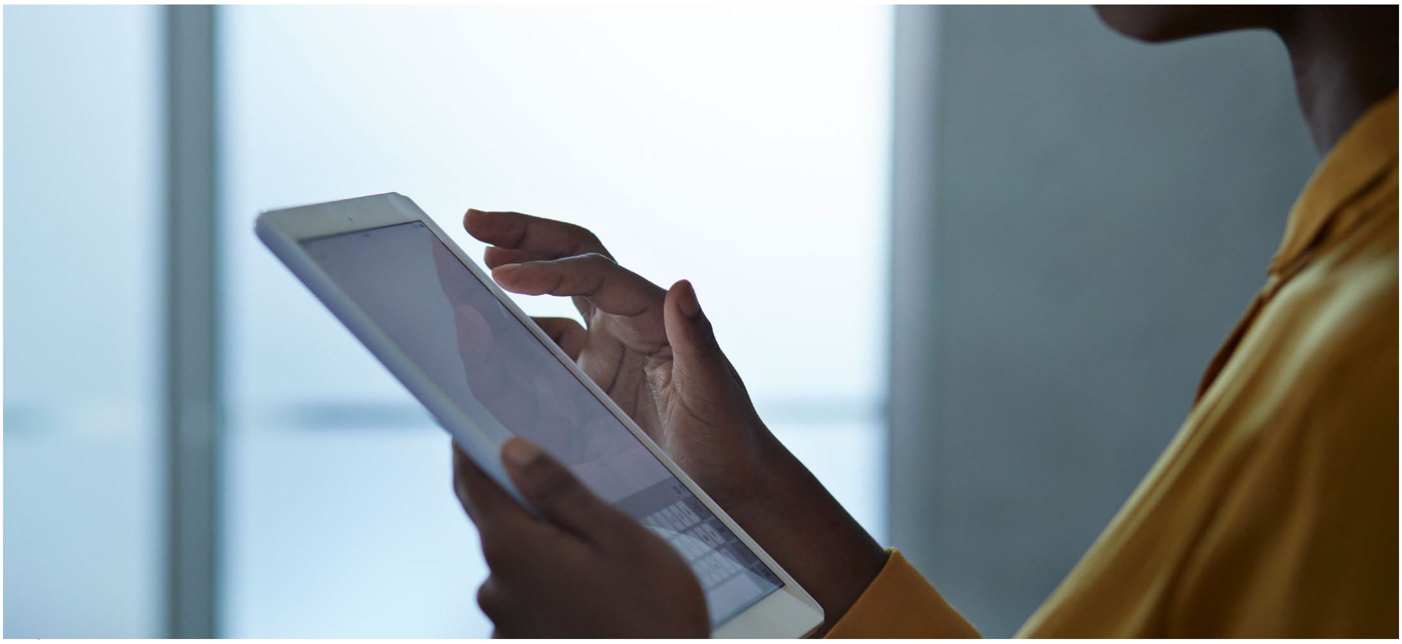
information belonging to nearly 147 million individuals was exposed. The vulnerability in the Apache Struts web application framework that was exploited by the attackers had been recently patched through a vendor update. However, Equifax had not installed this update as of the attack.

Even though it was armed with the technology that would have stopped it, the company's reliance on past systems and not updating them in a timely fashion really paved the way for one of the largest data breaches in history. This incident brings home the criticality associated with patch management and dangers of 'techno-optimism.' No single technology is infallible. Even the most evolved cybersecurity systems can be vulnerable to attacks, which cybercriminals can exploit. The defenders have to be right all the time while an attacker just has to be right once. In the CIPS sector, there is a similar danger of overreliance on industrial control systems or supply chain management software or automated production tools. A striking example is the 2013 Target data breach.

Target's internal systems were compromised through a third-party HVAC contractor. Through this industrial control system, the attackers were able to gain access to the credit card information of over 40 million customers. This example highlights what can happen due to third-party vendor compromise and relying only on sophisticated threat detection systems for breach identification.

The Human Element and the Role of Talent

While technology holds a very principal place in the sphere of cyber security, that does not mean the human factor is dispensable. The first line of defense against cyber threats are employees. Being over-reliant on technology can make one negligent about proper training and awareness among staff, making the occurrence of human error more probable.



In 2014, hackers belonging to the Guardians of Peace cyber group hacked Sony Pictures, compromising sensitive employee data, tens of thousands of emails, and a number of unreleased movies. The attackers utilised spear-phishing emails that were more of human exploitation than technological, to hack into Sony's network. This establishes the case for how a rigorous training program is supposed to exist hand in hand with a strong security culture.

In order to eliminate the problems associated with technological dependency, it is important to include talent and experienced consultation in cybersecurity strategies. Experienced consultation provides valuable insight and experience which no technology can perform. For instance, Cisco developed a predictive analytics tool that utilized machine learning to assess patterns of network traffic in order to identify anomalies that could be indicative of threats. This proactive measure has allowed Cisco to reduce the incidence of successful cyber-attacks to near zero while improving operational efficiency. The success of such tools depends on skilled professionals developing and managing them. The ability to retain and compensate talent is important in driving change towards innovation in cybersecurity; talented professionals are at the core of a formidable cybersecurity strategy. The retention of skilled professionals able to design and administer these systems and processes is key in sustaining the defenses against cyber threats.

Avoiding the Pitfalls

Organizations in the Consumer,Industrial Products and Services (CIPS) sector should take note of the following to avoid falling prey to technological dependence:

- Diversify Technology Solutions: An organisation must avoid falling into the trap of dependency upon any one technology or vendor. Apply duplication so that in case of failure of one, others can seamlessly step in for support.
- Hire and retain skilled cybersecurity professionals - invest in their talent. Offer them competitive compensation and a great work environment to make sure that the best are retained.
- Provide continuous best-practice training on cybersecurity to employees. Let them know about new threats and how to act in case of an attack.
- Regular security audits should be carried out, and systems should always be kept updated with the latest patches and updates.

By fully acknowledging the risks associated with technological dependency, therefore, having a balanced approach that involves human innovation, continual improvement, and a holistic strategy that brings together people, technology and process will ensure better protection on the part of an organisation against these ever-evolving threats.

ESG, beyond reporting to being a force for growth.

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Environmental, Social and Governance (ESG) reports are increasingly becoming the norm for companies seeking to publicly disclose information on their commitment to sustainable growth and responsible business practices. The publishing of these annual reports aims to address users and help them understand the impact of a company's business activities on the environment and society and to assess the risks and opportunities companies face, or which are offered to them.

The PwC's Global Investor Survey 2023 revealed that 94% of investors expressed skepticism towards the validity of corporate sustainability reporting, citing unsupported claims. This has resulted in a global demand for frameworks which has sought to enhance transparency and comparability of ESG disclosures.

2024 marks a turn in ESG reporting with mandatory frameworks coming into place for major global jurisdictions. Frameworks including International Sustainability Standards Board (ISSB), the Corporate Sustainability Reporting Directive (CSRD) and the Securities and Exchange Commission (SEC) are now all final and coming into place along with other local and regional regulations.

The extensive requirements by the regulations are calling for a sizable commitment of skills, effort and expense to prepare sustainability disclosures which can stand up to investor scrutiny and meet standards requirements.

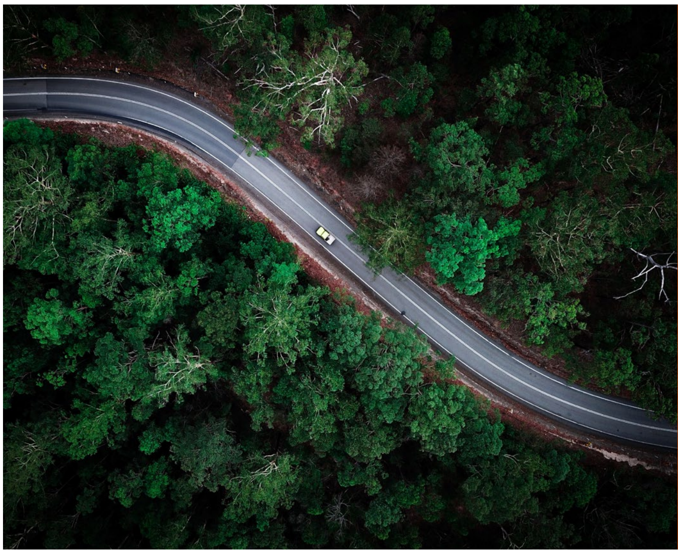
In an increasingly challenging macroeconomic environment, business leaders have raised the concern as to whether ESG reporting is an externally imposed compliance requirement or whether the investment in ESG really pays?

ESG is more than just a compliance cost. There are tangible benefits for companies.

Beyond the Numbers Game

ESG reporting can act as a catalyst for innovation and fuel growth for companies that embrace it strategically. Some of the ways this is achieved is through:

- Impact measurement - as part of reporting on ESG metrics, companies are able to quantify their environmental footprint, social impact, and governance practices providing and communicating a more holistic view of their role in society beyond financial performance.
- Risk management – through analysing sustainability factors, companies can identify potential risks associated with climate change, resource depletion, or social unrest and plan on their mitigation. Conversely, they can also discover opportunities to develop sustainable solutions and build resilience into their operations.
- Innovation and opportunities identification - environmental sustainability assessments call for companies to adapt to the changing climate. Leading organisations have the opportunity to go further and explore innovative solutions for reducing emissions, minimizing waste, and enhancing resource efficiency. Such solutions can



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ESG reporting can act as a catalyst for innovation and fuel growth for companies that embrace it strategically be channeled to products and services introduced to market to promote the resilience of businesses and communities.

- Access to Capital - investors are increasingly integrating ESG factors into their investment decisions. Strong ESG reporting demonstrates a company's commitment to responsible business practices and makes a company a more attractive candidate for investors.
- Cost reduction opportunities - ESG initiatives often lead to cost reductions. For example, focusing on energy efficiency can minimize energy consumption and associated costs.
- Operational efficiency - ESG reporting can lead to a more holistic view of operations, identifying areas for improvement in resource utilization and waste reduction. This can streamline operations and improve overall efficiency.
- Market differentiation - a strong ESG performance can differentiate a client's brand in a crowded marketplace and attract customers who value sustainability.
- Attracting talent - Millennials and Gen Z prioritize working for companies committed to ESG principles.
- Enhance transparency - ESG reporting fosters transparency and strengthens accountability to stakeholders, including investors, employees, customers and communities. This transparency can lead to greater trust and brand reputation.

Beyond reporting, ESG implementation

For these benefits to be realized, business leaders need to adopt a sustainable business model that goes beyond creating reports. Some of the ways companies can translate their ESG reporting into actionable initiatives include:

- Integration into corporate strategy - ESG principles should be factors into all aspects of a company's business strategy, from product development to supply chain management.
- Setting ambitious goals - clear and measurable ESG goals that align with the company's overall sustainability strategy. This provides a roadmap for progress.
- Employee engagement - engage employees in the sustainability journey. Employee participation fosters a culture of ownership and drives innovation.
- Collaborative partnerships - work with industry peers and not for profit sector to develop sustainable solutions and tackle shared challenges.
- Transparency in implementation - communicate your ESG initiatives and progress transparently with stakeholders. This builds trust and encourages external support.
- Continuous improvement - sustainability is a continuous journey. Companies need to periodically evaluate their ESG performance and identify areas for continuous improvement.

ESG reporting is not just a box to tick; it's a powerful tool that empowers companies to become responsible stewards of the environment, active contributors to society, and ultimately, drivers of sustainable growth. By embracing ESG reporting, companies can unlock a wealth of opportunities for innovation, attract investors, build resilience and thrive in a rapidly changing world.

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